REPORT OF EXAMINATION

North Coast Life Insurance Company
As of December 31, 2000

States Participating: Washington

North Coast Life Insurance Company

I hereby certify that I have read the Report of the Financial Examination of NORTH COAST LIFE INSURANCE COMPANY of Spokane, Washington. This report shows the financial condition and related corporate matters as of December 31, 2000.

Patrick H. McNaughton

Patrick McNaughton
Chief Examiner

8-22-02

Date

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August 22, 2002

The Honorable Alfred W. Gross
Commissioner, Commonwealth of Virginia
Bureau of Insurance
NAIC Chair, Financial Condition Committee
PO Box 1157
Richmond, VA 23218

The Honorable Mike Kreidler
Insurance Commissioner
State of Washington
Capital 5000 Building
PO Box 40255-0255
Olympia, WA 98504-0255

The Honorable Joel S. Ario
Insurance Administrator
Oregon Insurance Division
NAIC Secretary, Western Zone
350 Winter Street NE, Room 440
Salem, OR 97310-3883

Dear Commissioners:

Pursuant to your instructions and in compliance with the requirements of the state of Washington, an Association examination has been made of the corporate affairs and financial records of:

North Coast Life Insurance Company
of
Spokane, Washington

hereafter referred to as the Company or North Coast Life at its home offices located at 1116 West Riverside Avenue, Spokane, Washington 99201. The following report is respectfully submitted.

SCOPE OF EXAMINATION

The previous examination was made as of December 31, 1995 by the state of Washington. The present examination was conducted by examiners of the state of Washington and covered the period from January 1, 1996 through December 31, 2000.

A full scope examination was performed in accordance with procedures promulgated by the National Association of Insurance Commissioners (NAIC) and in compliance with the provisions of Washington State insurance laws and regulations.

<u>INSTRUCTIONS</u>

1. Bond Amortization to Call Dates

The Company failed to amortize bonds to call dates during the period under examination as required. RCW 48.12.170(1)(b) states,
"(1) All bonds or other evidences of debt having a fixed term and rate held by any insurer may, if amply secured and not in default as to principal or interest, be valued as follows:

(a) If purchased at par, at the par value.

(b) If purchased above or below par, on the basis of the purchase price adjusted so as to bring the value to par at the earliest date callable at par or maturing at par and so as to yield in the meantime the effective rate of interest at which the purchase was made; or in lieu of such method, according to such accepted method of valuation as is approved by the commissioner."

Our examination recalculated the amortized value of the bond portfolio and determined the portfolio was overstated by $221,883. The Company corrected the problem during the course of our field work and filed the September 31, 2001 quarterly statements with the proper valuation of bonds to callable dates. The Company is instructed to comply with RCW 48.12.170 on all future valuations of bonds. No adjustment was made in the examination report because the net total of all adjustments did not meet examination planning materiality of $300,000.

The Company was instructed to correct this deficiency in the December 31, 1995 Examination Report. (See pg. 12 "Accounts and Records" and pg. 23, 1. B, " Notes to the Financial Statements")

2. Brokerage Account

The majority of the Company's preferred stocks and bonds are held in the custody of the brokerage firm of Piper Jaffray. RCW 48.13.460 requires the Company to maintain securities with a qualified custodian as defined by RCW 48.13.450. A qualified custodian is defined as a participating financial institution which means a depositary financial institution such as a national bank, state bank, savings and loan, credit union, or trust company that is (1) authorized to participate in the federal reserve book-entry system, and (2) licensed by the United States or the banking authorities in its state of domicile and is regularly examined by the licensing authority. RCW 48.13.450(6) further states, a qualified custodian means either a participating financial institution or a clearing corporation, or both, and does not include a broker.

Pursuant to RCW 48.13.460, the Company is instructed to place or hold its securities in an authorized method. The following are the only authorized methods of holding securities:

(i) A domestic insurance company may hold securities in definitive certificates;

(ii) A domestic insurance company may, pursuant to an agreement, designate a participating financial institution or institutions as its custodian through which it can transact and maintain book-entry securities on behalf of the insurance company; or

(iii) A domestic insurance company may, pursuant to an agreement, participate in depository systems of clearing corporations directly or through a custodian bank.

3. Mortgage Loan Servicing Contract

The Company contracts with its affiliate, R. J. Martin Mortgage Company (RJM), to service its mortgage loan investments and to underwrite new mortgage loan investments. Per the Servicing Agreement dated April 1, 1992 and subsequent fee amendments, the cost of servicing is .75% of outstanding principal annually. The cost of underwriting new mortgage loan investments is .5% of the total outstanding principal annually. Material acquisition costs are capitalized into the cost of the loans acquired. Our review noted two provisions within the Servicing Agreement which violate RCW 48.31B.030 of the Insurer Holding Company Act. These are as follows:

a. **Underwriting Cost**

The NAIC defines underwriting costs as loan origination fees that shall be charged to expense as incurred. R. J. Martin charges the Company underwriting fees of .5% of the total outstanding principal *annually*. The charging of underwriting fees based on outstanding principal for the life of the mortgage loan is not customary, nor reasonable. This is a violation of RCW 48.31B.030(1)(a) which requires charges to be fair, reasonable, and allocated to the insurer in conformity with customary insurance accounting practices. (See pg. 12 "Administrative Contracts")

Pursuant to RCW 48.31B.030, North Coast Life is instructed to calculate its underwriting cost based on customary insurance accounting practices which require charges or fees for services performed to be allocated on an actual *cost* basis and expensed when incurred. Additionally, the Company is instructed to do a servicing and underwriting cost study to support the amount and method of incurring these costs.

b. **Cancellation Clause**

Under the miscellaneous clause of the Servicing Agreement, R. J. Martin is given the right to cancel the Servicing Agreement, without cause, with sixty days written notice. The Company is given the right to cancel without cause with sixty days written notice, but would be required to pay a sum equal to the product of the greater of "(i) four times the annual servicing fee or (ii) four percent (4%) times the aggregate principal amounts then outstanding of all the mortgages subject to this Agreement." (See pg. 12 "Administrative Contracts")

According to this clause, if North Coast Life terminated this agreement at year-end of 2000, they would have owed R. J. Martin approximately $332,517, which translates into approximately 5.5% of the Company's surplus. The inequities between the cancellation provisions are not reasonable or fair. Pursuant to RCW 48.31B.030(1)(a), the Company is instructed to revise the cancellation provisions to allow cancellation without cause or monetary penalty, given reasonable notice for both parties to the Servicing Agreement.

4. Loan Agreement with West 1116 Riverside Partners

The Company listed an outstanding loan of $237,428 with its affiliate West 1116 Riverside Partners under aggregate write-ins for other than invested assets. The loan to West 1116 Riverside Partners was originally made in 1999 in order to supplement or reduce the loan to value amount on a refinanced mortgage loan through U.S. Bank. The original mortgage loan was obtained by the West 1116 Riverside Partners to purchase the Company's home-office building under a purchase leaseback arrangement in 1989. The refinance lowered the interest rate, increased the amortization period, and lowered aggregate loan principal outstanding. The resulting lower borrowing costs have allowed the Company's annual rent for its home-office space to be reduced by approximately $80,000 per year, resulting in a lease rate below market. (See pg. 26 "Notes to the Financial Statements" Note 8)

Our review indicated the Company is not in compliance with the Washington holding company statutes and NAIC reporting instructions on this affiliate transaction. The Company is instructed to correct all deficiencies as noted below:

a. **Holding Company Registrant Requirements**

No formal loan agreement or promissory note was established between the Company and West 1116 Riverside Partners, and all loan payments made by the partnership since inception were applied to principal only. Although this transaction did not meet the one half of one percent of prior years admitted assets threshold for reporting under the annual Form B registration statement, the loan is subject to RCW 48.31B.030(1)(a) which states, the terms must be fair and reasonable and the books, accounts and records of each party must be so maintained as to clearly and accurately disclose the nature and details of the transaction.

Pursuant to RCW 48.31B.030(1)(a), the Company is instructed to formally execute a promissory note or loan agreement which is fair and reasonable as to principal owed, maturity, interest rate applied, and schedule of payments. If reduction of annual rent below market is given for consideration of an imputed interest charge, then studies should be conducted to support assumptions used and methodologies applied. Additionally, the books, accounts and records of each party must be so maintained as to clearly and accurately disclose the nature and details of the transaction.

b. Annual Statement Reporting

The Company reported the affiliate loan under aggregate write-ins for other than invested assets. The NAIC Annual Statement Instructions require the loan to be accounted for in the same manner as a private placement bond if the transaction meets the criteria of "Arm's Length." An "arm's length" transaction can be defined as a transaction in which a willing buyer and a willing seller, each being reasonably aware of all the relevant facts and neither under compulsion to buy or sell, would be willing to participate. In addition, RCW 48.13.020 requires securities and other investments eligible for purchase to be interest bearing or interest accruing and not in default at time of purchase.

Pursuant with RCW 48.05.250 and WAC 284-07-050(2), which states,

> "To effectuate RCW 48.05.250,...and to enhance consistency in the accounting treatment accorded various kinds of insurance transactions, the valuation of assets, and related matters, insurers shall adhere to the appropriate Annual Statement Instructions and the Accounting Practices and Procedures Manuals promulgated by the NAIC."

The NAIC Accounting Practices and Procedures Manual for Life, Accident and Health Insurance Companies states,

> "To the extent that the affiliate has liquid assets with which to repay the balance, and to otherwise maintain its account on a current basis, the amount may be admitted."

Pursuant to RCW 48.13.020(1), the Company is instructed to book and collect all principal and interest on loan balance since inception and otherwise make current based on executed agreement referred to above if it chooses to classify it as an admitted asset.

Pursuant to RCW 48.05.250, the Company is instructed to reclassify the loan as an invested asset and report it in the Annual Statement on Schedule BA and conversely in aggregate write-ins for invested assets on the Assets, Liabilities, Surplus and Other Funds schedule. In addition, it is recommended the Company report annual activity on Schedule Y.

5. Vacation Leave Accrual

The Company's vacation leave policy states "Vacation becomes available on the employment anniversary and must be used by the following anniversary unless special circumstances prevail." The Vacation benefits are guaranteed regardless of the reason for separation from employment to the Company. The anniversary dates vary by the hire date so that at the end of any reporting cycle the Company has vacation benefit expenses due. The Company has never accrued vacation benefits on a statutory basis, only on its GAAP statements.

The Company is instructed pursuant to RCW 48.12.030(5), to report vacation benefits unpaid using the accrual method on Exhibit 5 as general expenses. The adjustment for the unpaid general expenses required to accurately reflect expenses in the year of occurrence under the accrual method would be a debit of $53,670 to general insurance expenses and a corresponding credit to general expenses due or accrued. No adjustment was made in the examination report because the net total of all adjustment did not meet examination planning materiality of $300,000.

6. Schedule DM Market Values

Schedule DM compares the market value of stocks and bonds to the statement values in the Company's investment portfolio. The NAIC Annual Statement Instructions require fair market values to be used on all securities. The Company has incorrectly used book values as fair market values for all bonds which the Securities Valuation Office has not rated. (See pg. 6 "Comments and Recommendations" No. 2)

To enhance consistency in the accounting treatment accorded various kinds of insurance transactions, the valuation of assets, and related matters, the Company is instructed pursuant to RCW 48.05.250, to adhere to the appropriate Annual Statement Instructions and the Accounting Practices and Procedures Manuals promulgated by the NAIC in the compilation of Schedule DM.

7. Actuarial Opinion

Our review of the 2000 actuarial opinion noted the omission of pertinent language as required by WAC 284-07-380(2)(ii). (See pg.16 "Aggregate Reserves for Life Policies and Contracts") The actuarial opinion fails to include in its opening paragraph "..as stated in the letter to the Commissioner dated [insert date]." **The Company is instructed to include all pertinent language in the opening paragraph of its actuarial opinion as stated below:**

Pursuant to WAC 284-07-380(2)(ii), for a consulting actuary, the opening paragraph shall contain a statement substantially similar to the following:

> "I, [name], a member of the American Academy of Actuaries, am associated with the firm of [name of consulting firm]. I have been appointed by, or by the authority of, the Board of Directors of [name of company] to render this opinion as stated in the letter to the Commissioner dated [insert date]. I meet the Academy qualification standards for rendering the opinion and am familiar with the valuation requirements applicable to life and disability insurance companies."

COMMENTS AND RECOMMENDATIONS

1. Disaster Recovery Plan

The Company has a written Disaster Recovery Plan and Business Contingency Plan (the Plan) , but the plan does not include appropriate escalation procedures to resolve operational failures in a timely manner and does not include the use of an alternative processing center in the event of a long-term disruption of normal business activities. They have not put any such plans in writing and have not tested the plans to ensure completeness. The Plan is also deficient in the fact that it does not address the need for work space for staff and the tools and equipment they would need to perform their duties. (See pg. 12 "Electronic Data Processing Systems")

It is recommended the Company obtain access to an alternate processing center for restoring data processing capabilities in the event of a disaster. A formal contract should be written that outlines the terms for use of the alternative processing center.

2. Stock and Bond Risk Profile

Schedule DM compares amortized value (statement value) to market value of bonds and stocks in order to assess the difference in current liquidation values and ultimate realized value if held to maturity. If the market value is appreciably below the amortized value, it indicates a higher risk profile for the portfolio. The Company's market value of its bond and stock portfolio was approximately $6.2 million below amortized value. This equates to approximately 104% of the Company's capital and surplus. This indicates the Company has a higher risk profile than might be prudent given its limited capital structure.

If the Company sells securities from its portfolio before maturity, the realized losses incurred due to market value deficiencies below statement values, are absorbed or released from the Interest Maintenance Reserves (IMR). If the IMR is depleted, realized losses will directly impact surplus. The Company's Interest Maintenance Reserve (IMR) decreased 75% moving from $2,279,345 million to $565,299 between 1999 and 2000, respectively. The decrease results largely from the sale of IMR related fixed income securities. The IMR stands at approximately .7% of cash and invested assets which may not be sufficient given the continued high risk profile in its portfolio indicated by Schedule DM. (See pg. 6 "Instructions" No. 6)

The following schedule was compiled using the Company's Annual Statements for the 5 year period under examination:

Year	Statement (Admitted) Value	Fair Market Value	Excess of Statement over Market	Excess of Market over Statement
2000	$57,741,413	$51,523,487	$6,217,926	
1999	56,988,839	50,278,424	6,710,415	
1998	53,365,965	52,960,042	405,923	
1997	49,845,558	50,809,943		$964,385
1996	$42,636,363	$42,331,878	$304,485	

It is recommended the Company review its investment philosophy and policies in relation to portfolio risk and policy service interest or spread needs in order to mitigate further deterioration in asset quality. It is also recommended sales of stocks and bonds with market prices below statement values should be minimized when default risk is low, in order to build the IMR reserves to more comparable levels indicated by the overall risk profile indicated by the Company's portfolio.

3. Employee Manual

After discussions with Company personnel, it was determined the employment policies and procedures documented in the Company's employee manual were not always adhered to or conducted in a timely fashion. In particular, annual performance reviews were not consistently performed annually. The area of employment policies and treatment has seen increased litigation over the last decade and it is prudent for all companies to remain compliant and updated with all external and internal employment practices and policies. **It is recommended North Coast Life review these policies and the equitable application of such, to minimize the risk of future litigation for the protection of company personnel and policyholder assets.**

4. Mortgage Loan Servicing

R. J. Martin Mortgage Company has been contracted to perform the servicing functions for the Company's mortgage loan portfolio. Additionally, the Company and RJM perform operational and administrative functions for each other under an intercompany services agreement. RJM has one employee that divides their time between the two companies. RJM rents office space for this one employee in its home office and the work performed by that employee is sometimes indistinguishable between companies. The separation of functions performed is more of a legal distinction than substantive, which can make reimbursements for those services arbitrary. **It is recommended the Company review and study this relationship for continued feasibility. A study would most likely support an economic and administrative savings for retaining the mortgage loan servicing in house, as well as transferring the personnel of RJM to North Coast Life.** (See pg. 12 "Administrative Contracts")

HISTORY

The Company was incorporated on February 5, 1965 as a stock life insurance company under the laws of the state of Washington. The Company commenced business on May 3, 1965. Since incorporation, the Company has acquired or merged business from a number of insurance companies. The main acquisitions and dates are listed below:

Universal Guaranty Life Insurance Company	December 31, 1965
Tombstone Life Insurance Company	June 16, 1966
Trans National Life Insurance Company	November 1, 1966
Great Columbia Life Insurance Company	June 30, 1972
Sentinel Life Insurance Company	December 31, 1972
Los Angeles Life Insurance Company	August 22, 1973
Federal Old Line Life Insurance Company	January 1, 1976
Rainier National Life Insurance Company	October 1, 1977
Protective American Life Insurance Company	January 1, 1981
Universal Security Life Insurance Company	April 1, 1988

CAPITALIZATION

Common Stock

The Company authorized 800,000 shares of $3.50 par value, voting, common stock. As of December 31, 2000, 610,958 shares were issued and outstanding. C. Robert Ogden and family hold directly and indirectly through affiliates, approximately 78% of the outstanding stock of the Company. The Company issued 56,598 new shares of common stock at a price of $5.50 per share during 1999 and an additional 136,000 new shares at $5.00 per share in 2000. The following schedule, as of December 31, 2000, lists the distribution of controlling and miscellaneous shares:

Shareholder	Percent Outstanding Shares	Shares Outstanding	Attribution Percentage	Attributed Shares Outstanding	Percent of Total Shares
C Robert Ogden	0.89%	5,460	100.00%	5,460	0.9%
Robert J. Ogden	8.95%	54,651	100.00%	54,651	8.9%
Douglas H. Ogden	6.06%	37,000	100.00%	37,000	6.1%
David M. Ogden	2.78%	17,000	100.00%	17,000	2.8%
R. J. Martin Mortgage Company:	50.08%	305,958			
C. Robert Ogden & Family			63.50%	194,284	31.8%
Janet Allen & Family			36.50%	111,674	18.3%
1116 Riverside Partners:	9.26%	56,598			
C. Robert Ogden & Family			84.79%	47,990	7.9%
Janet Allen & Family			15.21%	8,608	1.41%
Total Ogden/Allen Family*	78.02%	476,667		476,667	78.02%
Misc. Shareholders**	21.98%	134,291	100.00%	134,291	21.98%
Total Company Shares	100.00%	610,958		610,958	100.00%

* Represents controlling shares - Janet Allen is C. Robert Ogden's sister in law

** No shareholder owns 2.5% or more of outstanding shares

Preferred Stock

The Company authorized 1,000,000 shares of 10% Series A cumulative convertible preferred stock at one dollar par value, convertible at the option of the holder into common stock at the initial rate of 1.4 shares common stock for each share of preferred. Dividends are payable quarterly. As of December 31, 2000, 362,690 shares were issued and outstanding. Shareholder dividends may be paid as declared by the Board of Directors subject to applicable statutory restrictions. (See pg. 17 "Subsequent Events" No. 2)

MANAGEMENT AND CONTROL

The bylaws vest the management and control of the affairs of the Company in a Board of Directors consisting of twelve members and a majority of whom shall be residents of Washington. Chester Robert Ogden, the Company's President, is the ultimate controlling person. Mr. Ogden and his immediate family own approximately 78% of the outstanding common stock of North Coast Life Insurance Company. Robert J. Ogden, Executive Vice President, Operations and Marketing, is the son of Chester Robert Ogden and is slated to take control of the Company when his father retires.

DIRECTORS AND OFFICERS

Directors and officers as of December 31, 2000:

Officers:

C. Robert Ogden, President
Robert J. Ogden, Executive Vice President – Sales & Operations
Clifford D. Kutsch, Secretary and Director of Agency Administration and General Services
Gavin J. Cooley, Treasurer
Richard D. Hillier, Senior Field Vice President
Delores J. Dressel, Vice President - Policy Service and Claims
Carol A. Maynard, Vice President and Senior Underwriter
Randy G. Thomas, Regional Vice President - Sales

Directors:

Name	Principal Occupation
Chester Robert Ogden, Chairman	President for North Coast Life Insurance Co.
Ronald Drake Andrews	Owner operator of Andrews Orchards
Laurence George Egger	Retired Senior VP and Treasurer for NCL
Dennis Eric Kraft	President, G. T. Graphic Consultants
Thomas VanValkenburg Atwater	Director, Nott-Atwater Company
William Carlin Fix	President, William C. Fix Investments
Preston Emerson Macy	President, Spokane Quotation Bureau
Robert James Ogden	Vice President for North Coast Life Insurance Co.
Gavin J. Cooley	Treasurer for North Coast Life Insurance Company
Warren Cummings Heylman	Warren C. Heylman and Partners, Architects
Douglas H. Ogden	Attorney, VP & General Counsel, Alternative Energy Institute
William Robert Shapton	Business Consultant

COMMITTEES OF THE BOARD

Executive Committee:

C. Robert Ogden
William C. Fix
Gavin J. Cooley
Robert J. Ogden

Warren C. Heylman	W. Robert Shapton

Committee on Finance:

Laurence G. Egger	William C. Fix
Preston E. Macy	W. Robert Shapton

Audit Committee:

Preston E. Macy	W. Robert Shapton
Ronald D. Andrews	Dennis E. Kraft
Lawrence G. Egger	Warren C. Heylman

AFFILIATED COMPANIES

R. J. Martin Mortgage Company

R. J. Martin Mortgage Company is a closely held family mortgage finance and servicing company. RJM's primary current operations are acquisitions, underwriting and servicing mortgage loans for North Coast Life. As of December 31, 2000, the Ogden family owned 63.5% and the Allen family owned 36.5% of the outstanding shares of RJM. The Allen family is related to C. Robert Ogden by marriage. RJM owns approximately 51% of the outstanding common stock of North Coast Life and is controlled by C. Robert Ogden, President of North Coast Life. North Coast Life currently has a mortgage loan servicing agreement and a loan guarantee commitment with RJM.

West 1116 Riverside Avenue Partners

The West 1116 Riverside Avenue partnership was originally formed in 1989 by North Coast Life, R. J. Martin Mortgage Company, and C. Robert and Margaret M. Ogden to purchase the Company's home office building with a sale and leaseback agreement. The formation of the partnership and purchase of the Company's home office building was encouraged by the Washington Insurance Department as a method of rebalancing assets into more productive uses. The Company originally purchased a $325,000 interest in the partnership.

C. Robert Ogden is the managing partner of West 1116 Riverside Avenue Partners. On March 10, 1994, R. J. Martin Mortgage Co. and C. Robert and Margaret M. Ogden bought out the Company's $325,000 interest in the partnership. On December 7, 1999, West 1116 Riverside Avenue Partners purchased 56,598 newly authorized shares of the $5.00 per share common stock of North Coast Life Insurance Company.

West 1124 Riverside Avenue Partners

The West 1124 Riverside Avenue partnership, a real estate management partnership, was formed in 1992 to purchase the West 1124 Riverside Avenue commercial office building adjacent to the Company's home office building. C. Robert Ogden is the managing partner of West 1124 Riverside Avenue Partners. As of December 31, 2000, the percentage ownerships in West 1124 Riverside Partners were as follows: North Coast Life 77.4%; R. J. Martin Mortgage Co., 10.8%; C. Robert and Margaret M. Ogden, 5.6%; and Heylman Properties 6.1%.

In years 1995 and 2000, the West 1124 Riverside Avenue Partners distributed $400,000 and $80,000 back to the Company. As of December 31, 2000, North Coast Life's cost basis in West 1124 Riverside Partners was $1,588,827 with a $13,350 receivable from the Partnership.

CORPORATE RECORDS

The Corporate records were reviewed for the period under examination. All Board meetings were conducted with a quorum present. All changes to the Articles of Incorporation and Bylaws were ratified by the Board members. The only significant changes noted in our review were to the Articles of Incorporation. The Articles of Incorporation were amended in 1999 and 2000 in order to change the par value of common stock. In 1999, the par value was changed from $2.00 to $4.50. In 2000, the par value was changed from $4.50 to $3.50. These changes were instituted in an effort to maintain compliance with statutory provisions of the state of California's capital and surplus requirements.

CONFLICT OF INTEREST

The Company has a policy statement and questionnaire to disclose conflicts of interest which all directors, officers and key employees are required to sign. No conflicts were disclosed for the period under examination.

ADMINISTRATIVE CONTRACTS

The following administrative agreements were in effect as of December 31, 2000:

Mortgage Loan Servicing Agreement

On April 1, 1992, the Company entered into a servicing agreement with its affiliate, R. J. Martin Mortgage Company. The initial agreement required the affiliate to collect mortgage payments; maintain all related escrow/impound accounts; remit principle and interest payments less the servicing fee, and upon direction of the Company institute foreclosure proceedings. In turn, the Company agreed to pay R. J. Martin 0.5% of the outstanding principal balance of its mortgage loan portfolio.

In March 1993, and September 1995, the servicing fee was increased to 1.0% and 1.25%, respectively, to compensate RJM for additional acquisition and underwriting functions assumed. Currently, the servicing fee portion is three quarters of one percent and the underwriting fee portion is one half of one percent. As of December 31, 2000, R. J. Martin was servicing mortgage loans with an aggregate principal balance of $8,312,914 and collected fees totaling $108,030. (See pg. 3 "Report Instruction" No. 3)

Mortgage Loan Purchase Recourse and Guaranty Agreement

In January 1992, the Company executed a Mortgage Loan Guaranty Agreement with its affiliate, RJM. Under the terms of this agreement, the Company agreed to purchase only first lien mortgage loans from RJM. In return, RJM agreed to treat all the loans it sold to the Company as recourse loans. The Company paid RJM approximately $650,000 in guarantee fees which secured approximately $2.1 million in mortgage loans. On December 31, 1995, the Company discontinued further participation in this agreement and plans to allow existing guarantees to expire in due course. As of December 31, 2000, RJM had guaranteed the collectibility of thirty five mortgages with loan principal balances totaling $1,120,647. Pursuant to the agreement, no guaranty payments were made from RJM to North Coast in year 2000.

According to this agreement, if a guaranteed loan becomes more than 180 days delinquent, RJM shall replace the defaulted loan with an equivalent performing loan or pay the Company the outstanding balance plus unpaid interest on the defaulted loan. The agreement was amended in June 1993, to allow for defaulted loans to remain in the Company's name throughout the foreclosure proceedings. Upon completion of the foreclosure process, the Company will receive reimbursements from RJM for any economic loss suffered. The addendum indicates the economic loss shall be calculated in such a manner as to place North Coast in the equivalent financial position as would have resulted from following the terms of the original Mortgage Loan Purchase Recourse and Guaranty Agreement.

Payroll Servicing Agreement

In 1983, the Company contracted with Ceridian, Incorporated (formally Control Data Business Centers), to process its payroll. In 1992, the agreement was amended to include payroll tax filing services. The services performed include, but are not limited, to the following:

a. Checks with comprehensive earning status;
b. Payroll register and accompanying transmittal;
c. Master control reports;
d. Quarterly tax listings and annual W-2 forms.

Intercompany Service Agreement

North Coast Life under its affiliation with West 1116 Riverside Avenue Partners, West 1124 Riverside Avenue Partners and RJM, performs accounting and operational functions for each of these affiliates. RJM performs various administrative functions and special projects for North Coast Life. In January 2000, the Company formalized an intercompany service agreement outlining the support functions and reimbursement methodologies to accurately allocate the true costs incurred by the Company and each of the affiliates. Provision has been made in the agreement to adjust salaries and time spent to accommodate future changes in the accounting, operational functions and salaries of personnel. Reimbursements are paid monthly on a net basis between affiliates. For the year ended December 31, 2000, the Company paid RJM a net amount of $6,420.

ACCOUNTS AND RECORDS

The Company's accounts and records are maintained on a GAAP modified accrual basis of accounting and are converted to Statutory Accounting Practices (SAP) basis for annual statement reporting. The Company is audited annually by the Certified Public Accountants, DeCoria, Maichel & Teague which issued an Unqualified Opinion for the years ended 1999 and 2000.

On December 31, 1997, the Commissioner entered an order adopting the 1995 Examination Report Order Number G 97-58, Findings, Conclusions, and Order Adopting Report of Examination. The Company was ordered to take action on all instructions, comments and recommendations. The Company failed to comply with Order 3 as noted below in violation of RCW 48.05.140(1). (See pg. 3 "Report Instruction" No. 1)

Amortization of Bonds

1995 Report Instruction No. 3:
A review of the Company's bond portfolio disclosed that bonds are not amortized to the call dates as required by RCW 48.12.170. No adjustment was recommended due to the immaterial amount of the difference in the amortized value calculated using call dates. If the Company portfolio changes with more callable bonds, this would become material. The Company is instructed to revise its method of amortization to use the shorter of the call date or maturity date pursuant to RCW 48.12.170.

Order 3:
The Company is instructed to revise its method of amortization to use the shorter of the call date or maturity date of bonds pursuant to RCW 48.12.170, as noted in Instruction (3) of the examination report.

ELECTRONIC DATA PROCESSING SYSTEMS (EDP)

The Management of the Company is knowledgeable of EDP issues and the various department managers work with the Information Systems Department (IS) to provide direction and oversight. Systems development, acquisition and maintenance controls were evaluated to gain assurance that programs and systems are designed, tested, approved and implemented using appropriate controls. Although the Company does not have detailed written documentation for its major operations and financially-significant applications, they do exercise proper supervision and review over its operations. The Company does not have an Internal Auditing Department that includes an IS Specialist.

The Company owns, operates and maintains its EDP system. Operations, processing and documentation controls were reviewed to determine the type of hardware installed; operating systems and proprietary software in use; back up and recovery facilities employed and the controls exercised to maintain data security. The procedures and internal controls for the operations of the financially-significant applications are adequate for a small company such as North Coast Life. The Disaster Recovery Plan and Business Contingency Plan do not include the use of an alternative processing center in the event of a long-term disruption of normal business activities. (See pg. 6 "Comments and Recommendations" No. 1)

FIDELITY BOND AND OTHER INSURANCE

The Company uses Marsh, a MMC Company as a broker to monitor its insurance needs and place coverage for them. Except for a lack of Directors and Officers liability coverage, it appears to have adequate coverage for the Company's needs. Director and officer liability coverage is essential in protecting the assets of the Company and it is recommended the Company pursue and obtain coverage if economically feasible.

The Company has contracted with the Fidelity and Deposit Company of Maryland for a financial institution blanket bond. The bond covers forgery, alteration and computer systems limited to $750,000 with a deductible of $25,000. The NAIC suggested amounts for fidelity coverage are between $400,000 and $450,000. The Company is insured through Royal Insurance Company for commercial general liability, property and umbrella at the following limits:

Liability:

	Limitations
General aggregate	$2,000,000
Products completed/operations	2,000,000
Personal and advertising injury	1,000,000
Each occurrence	1,000,000
Fire damage	100,000
Medical expenses	5,000
Washington stop gap bodily injury:	
Accident	1,000,000
Disease	1,000,000
Employee benefits	1,000,000

Property:

Blanket real and personal property	12,135,746
"Rents" and extra expense	2,193,503
Accounts receivable	250,000
Valuable papers restoration	250,000
Ordinance or law coverage	500,000
Additional miscellaneous coverages	

Umbrella:

Each Occurrence	1,000,000
Products/completed operations aggregate	1,000,000
General aggregate	1,000,000
Combined aggregate	1,000,000

EMPLOYEE WELFARE AND PENSION PLANS

The Company terminated its defined benefit pension plan on December 31, 1996. Employee vested benefits were distributed and plan assets were sufficient to satisfy all plan liabilities. The Company now sponsors an I.R.C Section 401(k) retirement plan. Under the 401(k) Plan, the Company annually matches employee contributions as follows:

Employee's Contribution	Company Match
First $600	$600(100%)
Next $600	$300 (50%)
Thereafter	-0- (0%)

Maximum annual Company match per participant: $900

For the year, expenses associated with the Company's newly instituted 401(k) Retirement Plan were as follows:

Matching expense:	$22,183
Administration expense:	3,812

The Company has no deferred compensation plans or other post-retirement benefit plans.

TERRITORY AND PLAN OF OPERATION

The Company is incorporated and licensed as a stock life insurance company in the state of Washington. The principal place of business is Spokane, Washington. The Company is currently licensed and writing life and annuity products in the twelve states of Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, and Wyoming. Additionally, they are licensed and writing business in Guam.

The Company's current product portfolio includes interest sensitive whole life, whole life, term, flexible premium deferred annuities and single premium deferred annuities. The Company has concentrated its efforts on product development and innovation in a controlled growth environment. The Company had approximately 200 agents as of December 31, 2000.

GROWTH OF THE COMPANY

The following schedules reflect the growth of the Company by year beginning in 1996. The amounts shown were compiled from the Company's annual statements:

Schedule 1 Assets, Liabilities, Surplus and Other Funds

	2000	1999	1998	1997	1996
Total admitted assets	$83,434,101	$83,808,089	$81,564,553	$78,189,503	$73,966,780
Total liabilities	77,435,603	78,565,106	76,871,063	73,756,163	69,540,671
Aggregate life reserves	72,890,950	72,285,265	70,570,678	67,894,689	64,095,485
Interest maintenance reserve	565,299	2,279,345	2,447,682	1,860,057	1,689,954
Asset valuation reserve	900,842	998,741	861,356	855,516	1,065,891
Capital:					
Common stock	2,138,353	2,137,311	630,212	550,212	550,212
Preferred stock	362,690	362,690	362,690	362,690	362,690
Gross paid in contributed surplus	5,138,893	4,459,935	5,139,475	5,019,475	5,019,475
Unassigned funds	(1,641,438)	(1,716,953)	(1,438,887)	(1,499,037)	(1,506,268)
Total capital and surplus	**$5,998,498**	**$5,242,983**	**$4,693,490**	**$4,433,340**	**$4,426,109**

Schedule 2 Revenues

	2000	1999	1998	1997	1996
Revenue and Other Sources					
Premiums and considerations	$5,609,336	$5,213,042	$6,750,753	$6,695,885	$4,820,964
Net investment income	6,291,898	6,148,818	6,055,709	5,875,398	5,639,149
Amortization of IMR	118,816	130,105	129,121	128,839	131,962
Miscellaneous			(5,831)	8,660	3,331
Reinsurance ceded:					
Commissions and expense allowances	161,374	167,979	189,463	209,097	204,214
Reserve adjustments	975,448	765,662	1,149,281	1,379,433	1,649,285
Total Revenue and Other Sources	**$13,156,872**	**$12,425,606**	**$14,268,496**	**$14,297,312**	**$12,448,905**

Schedule 3 Expenses

	2000	1999	1998	1997	1996
Benefit and Reserve Change Sources					
Death benefits	$1,379,047	$923,130	$1,051,709	$764,543	$653,596
Annuity benefits	3,700,600	2,584,237	3,413,369	2,865,408	2,858,398
Surrender benefits	1,343,929	1,237,715	919,117	829,873	823,139
Change in life and A&H reserves	250,530	1,343,206	2,432,439	3,537,859	2,468,000
Miscellaneous	288,327	227,069	300,839	335,357	169,129
Total Benefits and Reserve Changes	**6,962,433**	**6,315,357**	**8,117,473**	**8,333,040**	**6,972,262**
Commission and General Expense Sources					
Commissions	821,690	1,011,177	1,071,930	980,817	926,666
General insurance expenses	2,209,304	2,246,132	2,253,024	2,306,543	2,314,138
Insurance taxes, licenses and fees	294,605	327,813	292,064	310,830	393,057
Interest on modco reinsurance reserves	2,023,788	1,941,021	1,883,842	1,837,559	1,318,828
Miscellaneous	(66,545)	(43,257)	31,461	146,728	(46,992)
Total Commissions and General Expenses	**$5,282,842**	**$5,482,886**	**$5,532,321**	**$5,582,477**	**$4,905,697**

Schedule 4 Net Income

	2000	1999	1998	1997	1996
Net Income					
Total Revenue and Other Sources	$13,156,872	$12,425,606	$14,268,496	$14,297,312	$12,448,905
Total Expense and Other Sources	12,245,275	11,798,243	13,649,794	13,915,517	11,877,959
Dividends to policyholders	5,775	6,366	6,385	6,776	8,713
Federal income tax	0	43,128	(96,449)	(72,817)	(68,997)
Net realized capital gains (losses)	(376,124)	(15,477)	(186,649)	(5,489)	(65,717)
Net income (loss)	**$529,698**	**$562,392**	**$522,117**	**$442,347**	**$565,513**
Risk based capital (RBC)	**574%**	**447%**	**485%**	**429%**	**414%**

AGGREGATE RESERVES FOR LIFE POLICIES AND CONTRACTS

Aggregate reserves for life policies and contracts were reviewed and attested to by Alexis Santos, ASA, MAAA, FLMI, Associate Actuary, Washington Insurance Commissioner's Office. In addition, Anthony L. Hollobon, FSA, MAAA, Consulting Actuary, was retained by the Company to perform independent actuarial analysis over the five years under examination in order to issue an actuarial opinion in compliance with RCW 48.74.025 and WAC 284-07-360.

We reviewed the Statement of Actuarial Opinion and the supporting Actuarial Memorandum regarding the Company's asset adequacy analysis. (See pg. 6 "Instruction" No. 7) These documents were submitted with the Company's 2000 Annual Statement as provided for in Section 3 of the Standard Valuation Law, and in Section 8 of the NAIC Model Actuarial Opinion and Memorandum Regulation. Based upon cash flow testing, the Company's consulting actuary concluded that:

> "The reserves and related items, when considered in light of the assets held by the Company with respect to such reserves and related actuarial items including, but not limited to, the investment earnings on such assets, and the considerations anticipated to be received and retained under such policies and contracts, make adequate provision, according to presently accepted actuarial standards of practice, for the anticipated cash flows required by the contractual obligations and related expenses of the Company."

Aggregate reserves for life policies and contracts, and asset adequacy analysis, were reviewed and attested to by Alexis Santos, ASA, MAAA, FLMI, Associate Actuary, Washington Insurance Commissioner's Office. Except for missing language required in the opening paragraph pursuant WAC 284-07-380(2)(ii), Mr. Santos' findings concurred with the Company's independent opinion. (See pg. 6 "Instruction" No. 7)

REINSURANCE

As of December 31, 2000, the Company had approximately $592,401,000 of life insurance in force. Approximately $265,144,000 of in force life insurance was ceded to reinsurers for ceded premiums of $1,563,757. The Company cedes insurance to reinsurers under various contracts and treaties which cover individual risks or entire classes of business under both pro rata and excess of loss contracts. The Company's retention limit is $100,000 on any one life, but less on substandard risks. The Company's reinsurers are all rated "A" or higher with A.M. Best, except Optimum Re Insurance Company which is rated "A-". The Company monitors the financial condition of all its reinsurers.

North Coast Life Insurance Company is contingently liable under each reinsurance agreement in the event of insolvency of any one of the reinsurers under that agreement. The Company monitors the financial condition and believes the reinsurers will be able to meet their obligations under the agreements. All reinsurers are authorized to transact business in Washington State and are rated A.M. Best "A" or higher, except Optimum Re Insurance Company which is rated "A-".

The Company has claimed $2,028,571 in reserve credits as of December 31, 2000. Of this, General and Cologne Life Reinsurance Company (Cologne) accounted for $1,757,151 or approximately eighty-seven percent of the total reserve credits taken. Cologne also accounted for $171,244,537 of the in force ceded or approximately sixty-five percent of the total. Under the modified coinsurance portion of the treaty with Cologne, the Company posted a modified coinsurance reserve of $26,689,517 in which the Company has entered into a tri-party escrow security fund agreement with U. S. Bank National Association and Cologne. As of December 31, 2000, the Company had deposited bonds in this account with a statement value of $19,556,698 as security for the modified coinsurance reserve.

Under the original terms of the treaty with Cologne, the surplus relief (reserve credit) had to be recaptured over a seven year period ending on December 31, 2001. This recapture period was subsequently increased to December 31, 2003. The longer recapture period still required substantial increases in the recapture of surplus relief in the last two years of the contract. The Company felt this would put too large of a strain on surplus which operations could not absorb. Instead, the Company elected to negotiate a new treaty with London Life Reinsurance Company. (See pg. 17 "Subsequent Events" No. 1)

AGGREGATE RESERVES FOR LIFE POLICIES AND CONTRACTS

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Under the original terms of the treaty with Cologne, the surplus relief (reserve credit) had to be recaptured over a seven year period ending on December 31, 2001. This recapture period was subsequently increased to December 31, 2003. The longer recapture period still required substantial increases in the recapture of surplus relief in the last two years of the contract. The Company felt this would put too large of a strain on surplus which operations could not absorb. Instead, the Company elected to negotiate a new treaty with London Life Reinsurance Company. (See pg. 17 "Subsequent Events" No. 1)

SUBSEQUENT EVENTS

1. Reinsurance Contract with London Life Reinsurance Company (London Life)

The Company in negotiations with Cologne tried to increase the recapture to December 31, 2005 to smooth the recapture of reserve credits to approximately $350,000 per year. According to North Coast Life, Cologne refused to renegotiate the balloon provision due to a change in its underwriting policies which called for financial and other smaller less profitable treaties to runoff without renewal.

Effective January 1, 2001, the Company placed its existing financial reinsurance balances with London Life, an A+ A.M. Best rated insurer. No material changes were made in the treaty except to provide an extended two year pay down period. The extension eliminated the balloon effect in the last two years required in the Cologne agreement and rescheduled the remaining recapture of the surplus relief on a fairly consistent level of approximately $350,000 per year until fully recaptured in 2005, a level North Coast Life felt financially capable of absorbing without surplus stress.

The London agreement was reviewed by the Washington Office of the Insurance Commissioner and it was determined that the agreement transferred risk and made provision to indemnify North Coast Life for all or a part of the loss or liability in compliance with RCW 48.12.164. . (See pg. 16 "Reinsurance")

2. Preferred Stock Dividend Consent Order

On July 31, 2001, the Washington Insurance Commissioner's Office issued Consent Order G 01-31. Under the Consent Order, the Company while possessed of insufficient "earned surplus" as defined by WAC 284-13-160 to comply with RCW 48.08.030, may pay dividends on its currently issued and outstanding 10% preferred stock as extraordinary dividends pursuant to RCW 48.31B.030, subject to the following conditions:

i. North Coast Life Insurance Company must comply with RCW 48.31B.030 and apply for authority to pay extraordinary dividends. Each quarterly payment will require a new application.

ii. North Coast Life Insurance Company will maintain its total capital and surplus at not less than the amount required by RCW 48.05.340, at the date of this order, that amount being $4,800,000.

iii. North Coast Life Insurance Company will manage its operations in a prudent manner designed to generate net profits into the future.

If at the time of any application for payment of extraordinary dividends, North Coast Life Insurance Company's net income, cumulative from the quarter ending December 31, 2000, as reflected by filed annual and quarterly statutory financial statements, is less than the cumulative total amount of dividends paid since February 1, 2001, including the dividends covered by current application, the application will be denied.

Additionally, if at the time of any application for payment of extraordinary dividends, North Coast Life Insurance Company has reported negative net income in four or more consecutive quarters, including the most recent quarter, the application will be denied.

3. Codification of Statutory Accounting Principles

In 1998, the NAIC adopted the Codification of Statutory Accounting Principles (Codification). Codification provides comprehensive guidance for statutory accounting, and changes some current statutory accounting practices such as, but not limited to, a reduction in the depreciation expense period for computer equipment, change in accounting for investments in affiliated partnerships, and changes in amortization methodology for bond investments. Codification was enacted by the Legislature of the State of Washington, and is effective January 1, 2001. The effect of adopting Codification will be reported as an adjustment to surplus (unassigned deficit) on the effective date. Our subsequent analysis indicated a negative adjustment to surplus of approximately $250,000.

NORTH COAST LIFE INSURANCE COMPANY
Statement of Assets, Liabilities, Surplus and Other Funds
December 31, 2000

	Company Balance	Notes	Examination Adjustments	Examination Balance
Assets				
Bonds	$49,480,854	2		$49,480,854
Preferred stock	8,260,559	1		8,260,559
Mortgage loans on real estate	8,216,499	3		8,216,499
Properties acquired in satisfaction of debt	90,591	4		90,591
Policy loans	12,045,317	5		12,045,317
Cash on hand and on deposit	(11,666)			(11,666)
Other invested assets	1,628,977	6		1,628,977
Reinsurance ceded:				
Commissions and expense allowances due	2,118			2,118
Electronic data processing equipment	83,262			83,262
Guaranty funds receivable or on deposit	24,007			
Life ins premiums and annuity considerations deferred and uncollected	2,221,518			2,221,518
Investment income due and accrued	1,140,584			1,140,584
Receivable from affiliates	13,350			13,350
Aggregate write-ins for other than invested assets	238,131	8		238,131
Total assets	**83,434,101**		**0**	**83,410,094**
Liabilities, surplus and other funds				
Aggregate reserve for life policies and contracts	72,890,950	9		72,890,950
Aggregate reserve for accident and health policies	53,781	9		53,781
Supplementary contracts without life contingencies	171,000			171,000
Policy and contract claims: life	421,928			421,928
Policyholders' dividend and coupon accumulations	312,447			312,447
Dividends apportioned for payment to December 31, 2000	5,750			5,750
Premiums and annuity considerations received in advance	65,384			65,384
Liability for policyholder premiums	1,269,937			1,269,937
Interest maintenance reserve	565,299			565,299
General expenses due or accrued	77,658			77,658
Taxes, licenses and fees due or accrued	165,365			165,365
Unearned investment income	313,074			313,074
Amounts withheld or retained by company as agent or trustee	1,232			1,232
Amounts held for agents' account	41,126			41,126
Remittances and items not allocated	41,562			41,562
Borrowed money	40,595			40,595
Dividends to stockholders declared and unpaid	90,673			90,673
Asset valuation reserve	900,842			900,842
Reserve for non-deduction of liens on death claims	7,000			7,000
Total liabilities	**77,435,603**		**0**	**77,435,603**
Common capital stock	2,138,353			2,138,353
Preferred capital stock	362,690			362,690
Gross paid in and contributed surplus	5,138,893			5,138,893
Unassigned funds	(1,641,438)			(1,641,438)
Total surplus and other funds	**5,998,498**			**5,998,498**
Total liabilities, surplus and other funds	**$83,434,101**		**$0**	**$83,434,101**

NORTH COAST LIFE INSURANCE COMPANY
Summary of Operations
For the Year Ended 2000

	Company Balance	Notes	Examination Adjustments	Examination Balance
Premiums and annuity considerations	$5,482,650			$5,482,650
Considerations for supplementary contracts with life contingencies	91,497			91,497
Considerations for supplementary contracts without life contingencies	34,960			34,960
Coupons left to accumulate at interest	229			229
Net investment income	6,291,898	11		6,291,898
Amortization of interest maintenance reserve	118,816			118,816
Commissions and expense allowances on reinsurance ceded	161,374			161,374
Reserve adjustments on reinsurance ceded	975,448			975,448
Totals	**13,156,872**		**0**	**13,156,872**
Death benefits	1,379,047			1,379,047
Matured endowments	28,793			28,793
Annuity benefits	3,700,600			3,700,600
Disability benefits and benefits under accident and health policies	10,618			10,618
Coupons, guaranteed annual pure endowments and similar benefits	229			229
Surrender benefits and other fund withdrawals	1,343,929			1,343,929
Interest on policy or contract funds	114,492			114,492
Payments on supplementary contracts with life contingencies	77,892			77,892
Payments on supplementary contracts without life contingencies	54,510			54,510
Accumulated coupon payments	14,656			14,656
Increase in reserves for life and accident and health policies and contracts	250,530			250,530
Increase in reserves for supplementary contracts without life contingencies	(12,863)			(12,863)
Totals	**6,962,433**		**0**	**6,962,433**
Commissions on premiums and annuity considerations	821,690			821,690
General insurance expenses	2,209,304			2,209,304
Insurance taxes, licenses and fees, excluding federal income tax	294,605			294,605
Increase in loading on and cost of collection on def and uncollected prem	(66,545)			(66,545)
Interest on modco reinsurance reserve	2,023,788			2,023,788
Totals	**5,282,842**		**0**	**5,282,842**
Net gain from operations before dividends to policyholders and FIT	911,597			911,597
Dividends to policyholders	5,775			5,775
Federal income taxes	0			0
Net realized capital gains (losses) less capital gains tax and trans to the IMR	(376,124)			(376,124)
Net income	**529,698**		**0**	**529,698**
CAPITAL AND SURPLUS ACCOUNT				
Capital and surplus, December 31, 1999	**5,242,983**			**5,242,983**
Net income	529,698			529,698
Change in unrealized capital gains or (losses)	99,261			99,261
Change in non-admitted assets and related lines	78,399			78,399
Change in asset valuation reserve	97,899			97,899
Capital changes:				
Paid in	1,042			1,042
Transferred to surplus	474,958			474,958
Surplus adjustment:				
Paid in	204,000			204,000
Change in surplus as a result of reinsurance	(367,048)			(367,048)
Dividends to stockholders	(362,694)			(362,694)
Net change in capital and surplus for the year	**755,515**			**755,515**
Capital and surplus, December 31, 2000	**$5,998,498**		**$0**	**$5,998,498**

NORTH COAST LIFE INSURANCE COMPANY
Comparative Statement of Assets, Liabilities, Surplus and Other Funds
For December 31,

Assets	**2000**	**1999**
Bonds	$49,480,854	$49,032,440
Preferred stock	8,260,559	7,956,399
Mortgage loans on real estate	8,216,499	9,187,787
Properties acquired in satisfaction of debt	90,591	616,587
Policy loans	12,045,317	11,338,421
Cash on hand and on deposit	(11,666)	0
Other invested assets	1,628,977	1,634,375
Reinsurance ceded:		
Commissions and expense allowances due	2,118	1,127
Experience rating and other refunds due	83,262	118,129
Electronic data processing equipment	24,007	40,222
Life insurance premiums and annuity considerations deferred and uncollected	2,221,518	2,238,597
Investment income due and accrued	1,140,584	1,117,074
Receivable from affiliates	13,350	274,310
Aggregate write-ins for other than invested assets	238,131	252,621
Total assets	**83,434,101**	**83,808,089**
Liabilities, surplus and other funds		
Aggregate reserve for life policies and contracts	72,890,950	72,285,265
Aggregate reserve for accident and health policies	53,781	41,888
Supplementary contracts without life contingencies	171,000	167,241
Policy and contract claims: life	421,928	124,951
Policyholders' dividend and coupon accumulations	312,447	329,069
Provision for policyholders' dividends and coupons payable 1996	5,750	6,000
Premiums and annuity considerations received in advance	65,384	65,528
Liability for policyholder premiums	1,269,937	1,457,756
Interest maintenance reserve	565,299	2,279,345
General expenses due or accrued	77,658	38,718
Taxes, licenses and fees due or accrued	165,365	166,638
Unearned investment income	313,074	294,837
Amounts withheld or retained by company as agent or trustee	1,232	0
Amounts held for agents' account	41,126	45,520
Remittances and items not allocated	41,562	65,881
Borrowed money	40,595	100,055
Dividends to stockholders declared and unpaid	90,673	90,673
Asset valuation reserve	900,842	998,741
Reserve for non-deduction of liens on death claims	7,000	7,000
Total liabilities	**77,435,603**	**78,565,106**
Common capital stock	2,138,353	2,137,311
Preferred capital stock	362,690	362,690
Gross paid in and contributed surplus	5,138,893	4,459,935
unassigned funds	(1,641,438)	(1,716,953)
Total surplus and other funds	**5,998,498**	**5,242,983**
Total liabilities, surplus and other funds	**$83,434,101**	**$83,808,089**

NORTH COAST LIFE INSURANCE COMPANY
Comparative Summary of Operations
For the Years Ended December 31,

	2000	1999
Premiums and annuity considerations	$5,482,650	$5,096,561
Considerations for supplementary contracts with life contingencies	91,497	113,216
Considerations for supplementary contracts without life contingencies	34,960	3,036
Coupons left to accumulate at interest	229	229
Net investment income	6,291,898	6,148,818
Amortization of interest maintenance reserve	118,816	130,105
Commissions and expense allowances on reinsurance ceded	161,374	167,979
Reserve adjustments on reinsurance ceded	975,448	765,662
Totals	**13,156,872**	**12,425,606**
Death benefits	1,379,047	923,130
Matured endowments	28,793	41,434
Annuity benefits	3,700,600	2,584,237
Disability benefits and benefits under accident and health policies	10,618	10,300
Coupons, guaranteed annual pure endowments and similar benefits	229	229
Surrender benefits and other fund withdrawals	1,343,929	1,237,715
Interest on policy or contract funds	114,492	61,373
Payments on supplementary contracts with life contingencies	77,892	91,279
Payments on supplementary contracts without life contingencies	54,510	99,749
Accumulated coupon payments	14,656	8,028
Increase in reserves for life and accident and health policies and contracts	250,530	1,343,206
Increase in reserves for supplementary contracts without life contingencies	(12,863)	(85,323)
Totals	**6,962,433**	**6,315,357**
Commissions on premiums and annuity considerations	821,690	1,011,177
General insurance expenses	2,209,304	2,246,132
Insurance taxes, licenses and fees, excluding federal income tax	294,605	327,813
Increase in loading on and cost of collection on deferred and uncollected premiums	(66,545)	(43,257)
Interest on modco reinsurance reserves	2,023,788	1,941,021
Totals	**5,282,842**	**5,482,886**
Net gain from operations before dividends to policyholders and FIT	911,597	627,363
Dividends to policyholders	5,775	6,366
Federal income taxes	0	-43,128
Net realized capital gains (losses) less capital gains tax and transferred to the IMR	(376,124)	(15,477)
Net income	**529,698**	**562,392**

CAPITAL AND SURPLUS ACCOUNT		
Capital and surplus, December 31, 1999	**5,242,983**	**4,693,490**
Net income	529,698	562,392
Change in unrealized capital gains or (losses)	99,261	-42,649
Change in non-admitted assets and related lines	78,399	75,501
Change in asset valuation reserve	97,899	-137,385
Capital changes:		
Paid-in	1,042	1,507,099
Transferred to surplus	474,958	
Surplus adjustment:		
Paid-in	204,000	317,925
Change in surplus as a result of reinsurance	(367,048)	(373,537)
Dividends to stockholders	(362,694)	(362,388)
Interest on modco reinsurance reserves	-0-	(997,465)
Net change in capital and surplus for the year	**755,515**	**549,493**
Capital and surplus, December 31, 2000	**$5,998,498**	**$5,242,983**

NORTH COAST LIFE INSURANCE COMPANY
Five Year Reconciliation of Surplus
For the Years Ended December 31,

	2000	1999	1998	1997	1996
Capital and surplus, December 31, previous	**$5,242,983**	**$4,693,490**	**$4,433,340**	**$4,426,109**	**$4,036,912**
Net income	529,698	562,392	522,117	442,347	565,513
Change in unrealized capital gains or (losses)	99,261	(42,649)	176,832	47,071	61,906
Change in non-admitted assets and related items	78,399	75,501	(17,440)	(53,526)	66,331
Change in asset valuation reserve	97,899	(137,385)	(5,840)	210,375	(35,235)
Changes in surplus notes					
Capital changes:					
Paid in	1,042	1,507,099	80,000		
Transferred from surplus	474,958				
Surplus changes:					
Paid in	204,000	317,925	120,000		
Change in surplus as a result of reinsurance	(367,048)	(373,537)	(249,736)	(265,894)	(227,920)
Dividends to stockholders	(362,694)	(362,388)	(362,685)	(362,743)	(361,723)
Recapture of permanent difference from change to equity method of accounting for partnership interest			(3,098)	(10,399)	(63,498)
Cumulative adjustment for imputed capital gains tax					383,823
Transfer from surplus account for increase in common stock par value		(997,465)			
Net change in capital and surplus for the year	**755,515**	**549,493**	**260,150**	**7,231**	**389,197**
Capital and surplus, December 31, current	**$5,998,498**	**$5,242,983**	**$4,693,490**	**$4,433,340**	**$4,426,109**

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting Policies

A) Basis of presentation

The financial statements included herein have been prepared in accordance with statutory accounting practices prescribed or permitted by the Washington State Insurance Commissioner's Office, NAIC Annual Statement Instructions, and Accounting Practices and Procedures Manual, and Generally Accepted Accounting Practices (GAAP), respectively, in that order of authority.

B) Bonds

All bonds, if amply secured and not in default as to principle and interest, are carried at amortized cost. Such securities, not amply secured or in default, are carried at market value pursuant to RCW 48.12.170. Premiums and discounts are amortized using the scientific method to call or maturity (whichever produces the lowest value) over the term of the bond. Realized capital gains and losses on the disposition of bonds are recognized in operations, net of deferrals into the Interest Maintenance Reserve. (See pg. 3 "Report Instruction" No. 1)

C) Stocks

All common and preferred stocks are valued at market pursuant to RCW 48.12.180. Market value is determined by using published market rates by the Securities Valuation Office of the NAIC. Unrealized capital gains and losses on stocks are charged directly to assigned surplus without adjustment to recognize federal income taxes. Realized capital gains and losses on the disposition of preferred and common stocks are recognized in operations in the period incurred.

D) Real Estate Contracts and Mortgage Notes Receivable

Real estate contracts and mortgage notes receivable held for investment purposes are carried at amortized cost, subject to valuation limitations imposed under Chapters 48.12 and 48.13 of the Revised Code of Washington.

E) Property, Plant and Equipment

Buildings, land, and computer equipment are recorded at cost plus capitalized improvements less depreciation subject to certain statutory limitations. Depreciation is computed on a straight line basis over the estimated life depending on the type of asset and statutory regulations.

F) Policy Loans

Policy loans are carried at the unpaid principle balance of the loan up to the amount of the statutory reserve provided on the related life insurance or annuity policy pursuant to RCW 48.12.010(3).

G) Accrued Investment Income

Accrued investment income is recorded as earned subject to RCW 48.12.010. This includes, but is not limited to, interest on bonds not in default, collateral loan interest not exceeding one year, mortgage loan interest not exceeding eighteen months, rent not in arrears more than three months.

H) Premiums deferred and uncollected

Deferred premiums are recorded in amounts representing the portion earned in the period from the premium due date to the next policy anniversary date. Uncollected premiums are recorded for valued policies that are in their grace period, not exceeding legal reserves and other policy liabilities pursuant to RCW 48.12.010(3).

I) Policy Acquisition Costs

Underwriting or policy acquisition costs such as commissions and general insurance expense applicable to underwriting are written off in the year incurred and not deferred and amortized against future earnings.

J) Non-admitted assets

RCW 48.12.020 defines certain nonallowable assets which are listed as non-admitted in the annual statement. These consist of certain receivables over 90 days past due, prepaid expenses, furnishings, equipment and all electronic data processing equipment not meeting the criteria set forth in RCW 48.12.010(11). The changes in such assets are reflected as adjustments to net worth.

2. Bonds

Bonds are obligations issued by business units, governmental units, and certain non-profit units, and having a fixed schedule for one or more future payments of money. This includes commercial paper, negotiable certificates of deposit, repurchase agreements, collateralized mortgage obligations, mortgage participation certificates, interest-only and principle-only certificates, and equipment trust certificates.

Our examination of bonds focused on existence, ownership and proper valuation in compliance with Chapters 48.12 and 48.13 of the Revised Code of Washington, and in conjunction with the NAIC instructions and guidelines. One exception was noted during our review and the reported amortized value did not amortize to call dates. (See pg. 3 "Report Instruction" No. 1) The quality of bonds has decreased and maturities have increased since our last examination. The following schedules represent the quality distribution and maturity distribution as of December 31, 2000:

	Amortized value	Percent of Portfolio
Due in one year or less	$ 31,463	0.1 %
Due over one year through five years	2,634,854	5.3
Due over five years through ten years	2,532,091	5.1
Due over ten years through twenty years	4,610,508	9.3
Over twenty years	39,671,936	80.2
Total	$49,480,852	100.0 %

	Amortized value	Percent of Portfolio
Class 1	$11,912,493	24.1 %
Class 2	31,455,875	63.5
Class 3	4,748,273	9.6
Class 4	1,364,211	2.8
Total	$49,480,852	100.0 %

As of December 31, 2000, bonds with an amortized value totaling $19,556,698 were held in escrow with U. S. Bank in a tri-party agreement with the Company and Cologne Life Reinsurance Company as collateral for reserves under the modified coinsurance reinsurance agreement. Additionally, the Company had bonds with an amortized value of $1,803,851 in tri-party agreements with various banks as deposits required by certain state insurance departments as a condition of doing business in that state.

3. **Mortgage loans**

The Company has approximately 10% of its total assets invested in mortgage loans of which all are first lien residential properties except two first lien commercial loans. Mortgage loans are carried at their remaining unpaid principal balance, net of unamortized discounts and premiums. Discounts and premiums are accreted using the straight-line method which approximates the level interest method over the estimated remaining term of the loan, assuming prepayments. If a mortgage loan becomes more than eighteen months delinquent, any accrued interest thereon must be non-admitted per RCW 48.12.010(2)(e). The Company has chosen to non-admit delinquent interest after three months as a more conservative approach. As of December 31, 2000, approximately $9,956 of mortgage loan interest was non-admitted.

As of December 31, 2000, the Company's mortgage loan portfolio had approximately 2.3% of the outstanding loans over 90 days in arrears. Of the delinquent mortgages, one loan or approximately 0.3% of the portfolio was in foreclosure. The year-end and historical delinquency rates, as well as specifically identified problem loans, have been considered in determining the AVR. The AVR is based on estimates and ultimate losses may vary from current estimates.

4. **Properties Acquired in Satisfaction of Debt**

Properties Acquired in Satisfaction of Debt are properties held for sale that have been acquired through the foreclosure of delinquent mortgage loans. Pursuant to RCW 48.12.200, these properties are valued at amounts not exceeding the acquisition cost of the real property or 90% of the fair value of such real property, whichever is less. The properties acquired must be disposed of within five years in compliance with RCW 48.13.170. As of December 31, 2000, the Company had $90,591 or 0.1% of admitted assets in these properties.

5. **Policy Loans**

Policy loans are carried at an amount not exceeding the legal reserve maintained on that policy pursuant to RCW 48.13.190, and do not carry an interest rate in excess of eight percent pursuant to RCW 48.23.085. Life and annuity policy loans were sampled and no exceptions were noted in our examination. As of December 31, 2000, policy loans accounted for $12,045,317 or 14.4% of total admitted assets.

6. **Other invested assets**

Other invested assets as of December 31, 2000 consisted of the following investments:

	Statement Value
West 1124 Riverside Avenue Partners	$1,588,827
Various mortgage deficiency notes	38,831
Mortgage bankruptcy arrearage	1,322
Total	$1,628,980

7. **Computer Equipment**

Computer equipment is carried at cost, less accumulated depreciation. Depreciation is provided using the straight-line method over a life of 10 years. Depreciation expense and accumulated depreciation on computer equipment for the year ended December 31, 2000 were $47,547 and $171,954, respectively. Depreciation on EDP equipment will be reduced to 3 years per Codification in 2001 reporting cycle. (See pg. 17 "Subsequent Events" No. 3)

8. **Aggregate write-ins for other than invested assets**

Aggregate write-ins for other than invested assets as of December 31, 2000 consisted of:

	Statement value
Receivable from West 1116 Riverside Partners	$ 237,428
Miscellaneous claim reimbursement	703
Total	$ 238,131

The Company reported the receivable from West 1116 Riverside Partners under aggregate write-ins for other than invested assets. The NAIC Annual Statement Instructions require the loan to be accounted for as an invested asset under schedule BA. (See pg. 4 "Report Instruction" No. 4)

9. **Aggregate reserve for life, annuity, accident and health policies and contracts**

Life, annuity, and accident and health contracts had the following reserve components for the year ended December 31, 2000:

	Statement value
Life insurance	$52,895,658
Annuities	19,249,240
Supplemental contracts	746,052
Total life, annuity and supplemental contracts	72,890,950
Accident and health policies	53,781
Total life, annuity, supplemental, accident and health	$72,944,731

10. **Commitments and Contingencies**

The Company has a $1,000,000 unsecured line-of-credit agreement with U.S. Bank. Amounts outstanding under the agreement bear interest at a variable bank interest rate. The credited interest rate at December 31, 2000 was set at approximately 9.50%. The line-of-credit agreement expires on September 1, 2001. As of December 31, 2000, $40,595 was outstanding under this line-of-credit agreement.

The Company leases office space under an operating lease agreement with an affiliate West 1116 Riverside Partners and has a ten-year lease with an option to renew for its home office space running from January 1, 2000 to December 31, 2009. The prior lease ran from January 1, 1990 through December 31, 1999. The 2000 annual lease payments under the agreement amounted to $219,504. The total obligation under the lease from January 1, 2000 through December 31, 2009, totals $2,195,040. As of December 31, 2000, future minimum lease obligations totaled $1,975,536.

11. **Net investment income**

The following is a summary of net investment income earned for the year ended December 31, 2000:

	Statement value
Bonds	$4,034,093
Stocks	703,007
Mortgage loans	933,442
Real estate	31,788
Policy loans	768,879
Cash on hand and on deposit	2,636
Other invested assets	13,241
Interest on agents balances	(976)
Equity in net earnings of Plaza Partners	83,909
Gross investment income	6,570,019

Investment expenses	(267,344)
Investment taxes, licenses and fees	(1,350)
Interest expense	(1,569)
Depreciation on real estate and other invested assets	10,996
Net investment income	$6,291,898

North Coast Life Insurance Company

ACKNOWLEDGMENT

Acknowledgment is hereby made of the cooperation extended to the examiners by the officers and employees of the Company during the course of this examination.

In addition, acknowledgment is made of the participation in the work and preparation to this report by Patrick H. McNaughton, Chief Examiner, Alexis S. Santos, ASA, MAA, FLMI, Associate Actuary, Carl M. Baker, CPA, Staff Examiner, Michael V. Jordan, CPA, CFE, MHP Examiner-in-Charge; all from the Washington Insurance Commissioner's Office.

North Coast Life Insurance Company

AFFIDAVIT OF EXAMINER IN CHARGE

STATE OF WASHINGTON)
) ss
COUNTY OF KING)

Michael V. Jordan, being duly sworn, deposes and says that the foregoing report subscribed by him is true to the best of his knowledge and belief.

He attests that the examination of North Coast Life Insurance Company was performed in a manner consistent with the standards and procedures required or prescribed by the Washington Office of the Insurance Commissioner and the National Association of Insurance Commissioners (NAIC).

Michael V. Jordan

Michael V. Jordan, CPA, CFE, MHP
Examiner-in-charge
State of Washington

Subscribed and sworn to before me this 22nd day of August, 2002.

Colleen Jansen

Notary Public in and for the
State of Washington, residing
at Seattle.

COLLEEN JANSEN
COMMISSION EXPIRES
NOTARY
PUBLIC
4-1-04
STATE OF WASHINGTON